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**OIL AND GAS LEASE**

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Sand Hill

**NOTICE OF CONFIDENTIALITY RIGHTS: IF YOU ARE A NATURAL PERSON, YOU MAY REMOVE OR STRIKE ANY OF THE FOLLOWING INFORMATION BEFORE IT IS FILED FOR RECORD IN THE PUBLIC RECORDS: YOUR SOCIAL SECURITY NUMBER OR YOUR DRIVER'S LICENSE NUMBER.**

STATE OF TEXAS

COUNTY OF TARRANT

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This Oil and Gas Lease is entered into this 10th day of July, 2008, by and between **THOMAS E. HATLEY** ("Lessor"), whose address is P.O. Box 150158, Arlington, Texas 76096, and **Whitestone Resources LLC** ("Lessee"), whose address is P.O. Box 4620, Wichita Falls, Texas 76308.

1. FOR VALUABLE CONSIDERATION, the receipt and sufficiency of which is hereby acknowledged, and subject to the terms and provisions contained herein, Lessor does hereby **LEASE** exclusively unto Lessee the land described below herein referred to as the "Leased Premises" for the purposes of exploring and drilling for, producing, storing, treating, transporting and marketing oil and gas and all substances produced therewith, conferring all rights and easements reasonably necessary or useful for Lessee's operations hereunder. The Leased Premises is described as follows:

Being all of Lot 17, Block 28, of Stonebrook Estates, Section 3, an addition to the City of Arlington, Tarrant County, Texas, according to the plat thereof recorded in Volume 388-190, of the Plat Records of Tarrant County, Texas, and being further described in that certain Warranty Deed with Vendor's Lien dated December 14, 1994, B&H Real Estate Management, to Thomas E. Hatley, said deed recorded as Volume No. 011830 Page 0096, Official Public Records, Tarrant County, Texas.

2. This is a Paid Up Lease. Subject to the other provisions contained herein, this Lease shall remain in force for a term of Three (3) years from the date shown above, hereafter called the "Primary Term" and as long thereafter as oil or gas is produced from the Leased Premises or operations are conducted thereon as herein provided.

3. As royalty, Lessee covenants and agrees: (a) to deliver to the credit of Lessor, in the pipeline to which Lessee may connect its wells or in the absence of pipeline connection, into Lessee's storage facilities the equal to twenty two percent (22%) part of all oil produced and saved by Lessee from the Leased Premises, Lessor's interest to bear the same percent of the costs of treating oil to render it marketable; (b) to pay Lessor on gas and casinghead gas produced from the Leased Premises (1) when sold by Lessee, twenty two percent (22%) of the amount realized by Lessee, computed at the mouth of the well, or (2) when used by Lessee off of the Leased Premises or in the manufacture of gasoline or other products, the market value, at the mouth of well of the same percent of such gas and casinghead gas. The royalties provided in this Lease shall be determined and delivered to Lessor free of any monetary out of pocket costs of development, production, compression, processing, treating, gathering, transportation, delivery, marketing, or other post-production costs incurred by Lessee beyond the wellhead to the point of delivery to the gas gatherer, transporter or purchaser, whichever occurs first, excepting however taxes of any character applicable to Lessor's share of production that are paid by Lessee. This paragraph is not surplusage, but shall govern over all other royalty provisions of this Lease.

4. Notwithstanding any other provision of this Lease to the contrary, this Lease will cover only oil, gas and associated hydrocarbons and shall not cover any other substances or minerals.

5. Lessee is hereby granted the right, at its option, to pool or unitize any land covered by this lease with any other land covered by this lease, and/or with any other land, lease, or leases, as to any or all minerals or horizons, so as to establish units containing not more than 80 surface acres, plus 10% acreage tolerance; provided, however, units may be established as to any one or more horizons, or existing units may be enlarged as to any one or more horizons, so as to contain not more than 320 surface acres plus 10% acreage tolerance, if limited to one or more of the following: (1) gas, other than casinghead gas, (2) liquid hydrocarbons (condensate) which are not liquids in the subsurface reservoir, (3) minerals produced from wells classified as gas wells by the conservation agency having jurisdiction. If larger units than any of those herein permitted, either at the time established, or after enlargement, are permitted or allowed under any governmental rule or order, for the drilling or operation of a well at a regular location, or for obtaining maximum allowable from any well to be drilled, drilling, or already drilled any such unit may be established or enlarged to conform to the size permitted or allowed by such governmental order or rule. Lessee shall exercise said option as to each desired unit by executing an instrument identifying such unit and filing it for record in the public office in which this lease is recorded. Each of said options may be exercised by lessee at any time and from time to time while this lease is in force, and whether before or after production has been established either on said land, or on the portion of said land included in the unit, or on other land unitized therewith. A unit established hereunder shall be valid and effective for all purposes of this lease even though there may be mineral, royalty, or leasehold interests in lands within the unit, which are not effectively pooled or unitized. Any operations conducted on any part of such unitized land shall be considered, for all purposes, except the payment of royalty, operations conducted upon said land under this lease. There shall be allocated to the land covered by this lease within each such unit (or to each separate tract within the unit if this lease covers separate tracts within the unit) that proportion of the total production of unitized minerals from the unit, after deducting any used in lease or unit operations, which the number of surface acres in such land (or in each such separate tract) covered by this lease within the unit bears to the total number of surface acres in the unit, and the production so allocated shall be considered for all purposes, including payment or delivery of royalty, overriding royalty and any other payments out of production, to be the entire production of unitized minerals from the land to which allocated in the same manner as though produced therefrom under the terms of this lease. The owner of the reversionary estate of any term royalty or mineral estate agrees that the accrual of royalties pursuant to this paragraph or of shut-in royalties from a well on the unit shall satisfy any limitation of term requiring production of oil or gas. The formation of any unit hereunder which includes land not covered by this lease shall not have the effect of exchanging or transferring any interest under this lease (including, without limitation, any shut-in royalty which may become payable under this lease) between parties owning interests in land covered by this lease and parties owning interests in land not covered by this lease. Neither shall it impair the right of lessee to release, except that lessee may not so release as to lands within a unit while there are operations thereon for unitized minerals unless all pooled leases are released as to lands within the unit. At any time while this lease is in force lessee may dissolve any unit established hereunder by filing for record in the public office where this lease is recorded a declaration to that effect, if at that time no operations are being conducted thereon for unitized minerals. Subject to the provisions of this paragraph, a unit once established hereunder shall remain in force so long as any lease subject thereto shall remain in force. If this lease now or hereafter covers separate tracts, no pooling or unitization of royalty interests as between any

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such separate tracts is intended or shall be implied or result merely from the inclusion of such separate tracts within this lease but lessee shall nevertheless have the right to pool or unitize as provided in this paragraph, with consequent allocation of production as herein provided. As used in this paragraph, the words "separate tract" mean any tract with royalty ownership differing, now or hereafter, either as to parties or amounts, from that as to any other part of the leased premises.

6. If at any time there is a well on the Leased Premises capable of producing gas, but the well has stopped being produced for a lack of a market or if the well is not completed due to a lack of pipeline, water, completion equipment or other good cause and this Lease is not being continued in force by some other provision hereof, then it shall nevertheless continue in force for a period of ninety (90) days from the date such well is shut-in or the date this Lease ceases to be continued in force by some other provision hereof, whichever is the later date, and prior to the expiration of such ninety (90) day period and annually thereafter, Lessee may pay or tender to Lessor an advance royalty called "Shut-In Gas Royalty" in an amount equal to \$5.00 per acre for the acreage then held under this Lease by such well and so long as such payments or tenders are so made this Lease shall continue in force and effect and it shall be considered that gas is being produced from the Leased Premises within the meaning of Paragraph 2 of this Lease.

7. If at the expiration of the Primary Term oil or gas is not being produced from the Leased Premises or lands pooled therewith, but Lessee is then engaged in drilling or reworking operations thereon or shall have completed a well, either as a producer or a dry hole, within 120 days prior to the end of the Primary Term, this Lease shall remain in force so long as operations are continued in good faith and with reasonable diligence and not more than one-hundred eighty (180) days shall elapse between the drilling, completion or abandonment of a well and the commencement of operations to drill, rework or began completion of a well and, if such operations result in the production of oil or gas, so long thereafter as oil and gas is produced from the Leased Premises.

8. If oil or gas is produced from the Leased Premises or lands pooled therewith and production thereof should cease for any reason after the expiration of the Primary Term, Lessee shall have the right at any time within One-hundred twenty (120) days from the date of cessation of production to commence reworking or additional drilling operations in an effort to resume production, in which event this Lease shall remain in force so long as such operations are conducted in good faith and with reasonable diligence with no cessation of operations of more than 120 consecutive days and if such operations result in the production of oil or gas, so long thereafter as oil or gas is produced from the Leased Premises or lands pooled therewith.

9. The rights of either party hereunder may be assigned, in whole or in part, and the provisions hereof shall extend to their heirs, personal representatives, successors, and assigns; however, no change in the ownership of the land, rentals or royalty or the division thereof however accomplished shall operate to enlarge the obligations or diminish the rights of Lessee. No change in the ownership or the division of the land or royalties shall be binding upon the Lessee for any purpose until thirty (30) days after Lessee shall have been furnished the instrument or instruments or recorded copies thereof resulting in such change.

10. Lessor hereby warrants and agrees to defend title to said land against the claims of all persons whomsoever. Lessor agrees that Lessee shall have the right at any time to pay or reduce for Lessor either before or after maturity any mortgage, taxes or other liens or interests and other charges against the Leased Premises not subordinated to this Lease and to be subordinated to the rights of the holder thereof and to deduct the amounts so paid from royalties or other amounts due or which may become due to Lessor under this Lease. If Lessor owns less interest in the mineral estate in the Leased Premises than the entire and undivided fee simple estate, or no interest therein, then the lease bonus, royalties and other payments herein provided shall be paid to Lessor only in the proportion which Lessor's interest, if any, bears to the whole and undivided fee simple estate. In the event it is determined that the bonus amount paid by Lessee to Lessor is other than the amount due Lessor then, Lessor agrees to refund anything in excess of the true amount due to Lessor.

11. All Lessee's operations on the Leased Premises will be subject to and will be conducted in compliance with all federal, state, county, city and other laws, rules, ordinances, regulations and requirements. Lessee will assume all costs of insuring that its operations comply with all applicable laws. This Lease shall not be terminated in whole or in part, nor Lessee held liable for damages for failure to comply with the terms herein set forth, if compliance is prevented by or such failure is a result of any law, order, rule or regulation of applicable federal, state, county or other governmental authority or deed restriction and if not otherwise being maintained herein, the Primary Term hereof shall be extended until the first anniversary date hereof occurring ninety (90) or more days following the removal of such delaying cause and this Lease may be extended thereafter by operations and/or production as provided herein as if such delay had not occurred.

12. Whether or not this Lease is executed by all parties named herein as Lessor, this Lease shall be binding upon and inure to the benefit of all parties who execute it (whether or not named herein) and all parties from whom each Lessor has authority to execute this Lease. This lease also covers and includes all land owned or claimed by Lessor adjacent or contiguous to the land particularly described above whether the same be in said survey or surveys or in adjacent surveys, although not included within the boundaries of the leased premises.

13. Lessee indemnifies and holds Lessor harmless from and against any claims, costs and liabilities such Lessor may suffer whether for injury or death to any person, injury or damage to any property, failure to adhere to or comply with any applicable laws, rules or regulations or demand for monetary damages (collectively the "Claims") to the extent that such Claims relate to or arises from Lessee's operations under this Lease or Lessee's breach of its obligations under this Lease.

14. No waiver by a party hereto of any breach of a term, condition or covenant of this Lease will be deemed to be a waiver of any other breach of the same or any other term, condition or covenant contained herein.

15. In the event any provision of this Lease is for any reason held to be invalid, illegal or unenforceable in any respect, such invalidity shall not affect any other provision thereof and this Lease shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

16. In the event of any legal action or proceeding between the parties seeking to enforce the terms of this Lease, the prevailing party in such action shall be entitled to recover, in addition to all remedies available to it at law, all of its costs and expenses in connection therewith, including attorney's fees and costs.

17. This Lease contains the entire agreement of the parties regarding the subject matter hereof and supercedes any and all prior agreements, arrangements or understandings between the parties regarding such subject matter. This Lease cannot be changed orally and may be amended only by an instrument in writing executed by the parties.



18. This Lease may be executed in one or more executed and acknowledged counterparts or ratifications hereof each of which shall be deemed to be acceptable and all of which together shall constitute one and the same document.


19. Any notice required or permitted to be given hereunder must be in writing and must be sent to the parties via personal delivery or certified mail only at their addresses set forth in this Lease or at another address upon prior written notice of the same.

20. **NO SURFACE OPERATIONS.** Lessee shall not enter upon the leased premises, erect, set up or place any structure or building on the leased premises, or conduct any drilling operations upon the surface of the leased premises without the written consent of Lessor. Lessee shall only develop the leased premises by pooling, as provided herein, and/or by directional or horizontal drilling commenced from a surface location on other lands in such manner that the path of the wellbore is under and through the leased premises and the bottom-hole or terminus is on the leased premises or lands pooled therewith.

21. Notwithstanding anything to the contrary contained above, Lessor hereby grants to Hollis R. Sullivan, Inc., any other third party and its agent, TimeSlice Technology, Inc., permission, to conduct seismic operations or utilize existing data collected for exclusive use or for an undershoot by other third parties to image the sub-surface of the leased premises, including the right to lay receiver lines and / or sources on the leased premises.

22. Lessor and Lessee hereby agree that Lessee shall have the option, but not the obligation, to extend the primary term of the Lease for an additional period of two (2) years by paying to Lessor the sum of \$200.00 for all of Lessor's mineral interest in the tract of land covered by this Lease, such payment to be post marked by U.S. Mail on or before the expiration of the primary term of this Lease to Lessor's last known mailing address. Any sale or conveyance of the minerals covered by this lease shall be made expressly subject to the terms and conditions contained herein.

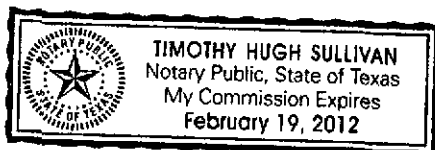
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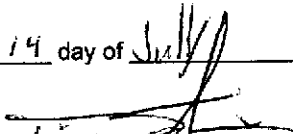
  
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THOMAS E. HATLEY

THE STATE OF TEXAS §  
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COUNTY OF TARRANT §

This instrument was acknowledged before me on this 14 day of July, 2008,

by Thomas E. Hatley



  
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Notary Public – State of Texas



HOLLIS R SULLIVAN INC  
P O BOX 9289

WICHITA FALLS TX 76308

Submitter: HOLLIS R SULLIVAN INC

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SUZANNE HENDERSON  
TARRANT COUNTY CLERK  
TARRANT COUNTY COURTHOUSE  
100 WEST WEATHERFORD  
FORT WORTH, TX 76196-0401

**DO NOT DESTROY**  
**WARNING - THIS IS PART OF THE OFFICIAL RECORD.**

Filed For Registration: 08/05/2008 08:32 AM  
Instrument #: D208303396  
LSE 4 PGS \$24.00

By: \_\_\_\_\_



**D208303396**

ANY PROVISION WHICH RESTRICTS THE SALE, RENTAL OR USE  
OF THE DESCRIBED REAL PROPERTY BECAUSE OF COLOR OR  
RACE IS INVALID AND UNENFORCEABLE UNDER FEDERAL LAW.

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